

**Consultation on Review of existing VAT legislation on public bodies and tax exemptions in
the public interest
Response from the Low Incomes Tax Reform Group ('LITRG')**

1 Executive Summary

- 1.1 Our remit is to represent taxpayers on low incomes who may not be otherwise represented. Accordingly, our response to this consultation is confined to general observations on the likely impact of the proposals it contains on low-income individuals.
- 1.2 In broad terms, we are in favour of free market competition and welcome proposals that both promote this and lead to a lower cost base for individuals on a low income. Our concern with these proposals is that we are unsure whether they would result in lower costs to those we represent: in fact, we fear that costs for them may increase without any associated increase in welfare benefits to compensate them.
- 1.3 Public services in the UK are traditionally outside the scope of VAT, and that should remain the case in order to protect the cost base for the benefit of low-income users of those services.
- 1.4 The UK tax and benefit systems do not necessarily work hand-in-hand. Any change to one element of the taxation system will inevitably have an effect on those individuals who rely to any extent on the benefits system. This is particularly the case for any "expenditure" tax, as the ultimate bearer of that tax will be the individual consumer; the benefits system will not necessarily compensate for any increased cost incurred by individuals.
- 1.5 We would particularly urge caution against imposing additional tax on broadcasting services. Having access to up-to-date information over various media, for example television, radio or

internet, is becoming increasingly necessary for all citizens: any increased costs would be felt more by individuals on a low income as any increase would be a greater proportion of their available income.

- 1.6 We are discouraged by some of the words and phrases used in the Consultation Document. These make the content difficult to understand and may prevent many people from issuing responses. We urge the European Commission to attempt to simplify both the structure of its sentences and the actual words used. Specific examples are referred to below.

2 About Us

- 2.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.
- 2.2 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

3 Introduction

- 3.1 We note that the main thrust of the consultation is to broaden the base for indirect taxation. We confine our comments on the proposals to their potential impact on the people we represent.
- 3.2 In January of 2013¹, we responded to an earlier consultation on reduced rates of VAT and many of the points we raised then remain relevant.
- 3.3 As an initiative of the CIOT we have had access to its submission, which we fully endorse, and reiterate the following comments:

¹ http://www.litrg.org.uk/submissions/2013/RR_VAT

- 3.3.1 When VAT was introduced in the UK, it was on the basis that public services would not be burdened with VAT: they are currently outside the scope of VAT. Any addition of VAT to those services would appear to increase the cost for low income taxpayers, although in many cases, see below, there is no direct consideration for these services.
- 3.3.2 Major expenditure on social protection, health and education is currently provided for by public bodies and there is no direct cost to the citizen because these services are financed from general taxation. While, in some cases, parts of these services may be outsourced, in the UK, at least, it is difficult to foresee a significant move away from the ‘free’ NHS and education services that UK citizens have enjoyed as a right for so long.
- 3.4 In tandem with this, such bodies, for example the NHS, do qualify for certain special reliefs enabling them to reclaim VAT on various items. Broadly, this enables the NHS to recover some of the input VAT it incurs.
- 3.5 While there is some distortion arising because private healthcare providers, for example, may not be able to recover similar amounts of VAT, the users of those services are not generally the people whom we represent.
- 3.6 We do note that there may be some distortion in relation to charities who increasingly may carry out similar work to that carried out by public bodies in the fields of social care or healthcare, for example local authorities may employ specialist disability charities to provide care that their staff are not qualified to do. A large proportion of the costs of these charities does tend to be staff costs (that bear no VAT) so, while not complacent, we accept that under the current regime they do incur more irrecoverable VAT than the public bodies that are providing a similar service – and that will impact on the service they can provide to low income and vulnerable taxpayers. Nevertheless, we are not convinced that a wholesale change to the VAT regime is the best way of tackling this inconsistency.

4 Detailed Comments

4.1 *Effect on low income taxpayers*

- 4.1.1 In the UK we have complicated tax and benefit systems that do not always work hand-in-hand. Any change to one element of the taxation system will inevitably have an effect on those individuals who rely to any extent on the benefits system. This is particularly the case for any “expenditure” tax, as the ultimate bearer of that tax will be the individual consumer.
- 4.1.2 While we accept that there has been a significant change in the way some services are provided (and may be provided in the future), imposing an additional cost on items such as education and health could work to the disadvantage of those members of our community who most require help.

- 4.1.3 We are particularly concerned that this could adversely affect disabled people and other vulnerable groups. A recent report¹ has highlighted that one quarter of the children in the UK currently live in poverty. Any additional cost to them or their families will be harmful, especially as we have noted already that the benefits system will not necessarily compensate for these increased costs. In particular, individuals with different needs might well find their costs increase by differing amounts whereas the UK benefits system would be more likely to consider those individuals as a group rather than considering their individual needs and increased care costs.
- 4.1.4 Two of the services that are specifically mentioned in the document at 3.3 are postal and public broadcasting services. It seems that the Commission has decided already (see point 4.1 in the Consultation Document) not to pursue the imposition of VAT on postal services.
- 4.1.5 As far as broadcasting services are concerned, having access to up-to-date information over various media, for example television, radio or internet, is becoming increasingly necessary for all citizens: any increased costs would be felt more by individuals on a low income as any increase would be a greater proportion of their available income. We already have concerns that large sections of the community are digitally excluded² and would be very concerned if increased costs added to this inequality.
- 4.1.6 To an ever greater degree, essential information emanating from the Government is available only – or in its most accessible form – online; HMRC already mandates the use of online channels as the only means by which taxpayers can fulfil certain obligations to the fisc, and certain working age benefits – notably universal credit – can now only be claimed online. People on low incomes already struggle with the cost of communicating with Government bodies online, and to add an extra tax burden to a cost they are already obliged to incur can only result in more, and deeper, digital exclusion.

4.2 ***Wording used in the Consultation Document***

- 4.2.1 We would refer you to section 2, 3rd paragraph, reproduced below.

“The issue of the VAT treatment of the public sector was one of the subjects in the public consultation launched by the European Commission on the basis of the Green Paper on the future of VAT and – following this consultation – subject to the Commission's Communication on the future of VAT according to which the review and possible revision of the VAT rules on the public sector is one of the priority areas of the European Commission's further work to create a simpler, more efficient and more robust VAT system in the EU.”

¹ <https://www.gov.uk/government/collections/households-below-average-income-hbai--2>

² http://www.litrg.org.uk/Resources/LITRG/Documents/2012/05/digital_exclusion_-_litrg_report.pdf

- 4.2.2 The construction of this paragraph may be grammatically correct, but equally will be incomprehensible to many citizens. As such, it prevents people from making responses on what could be a very important topic. We would recommend that wherever possible simple English is used, with short sentences.
- 4.2.3 Making its point clearly must be important to the Commission and we would urge it to use plain English in all its documents: that will aid any discussions.

LITRG
24 April 2014